

# *Municipal and County Finance*



*Informational  
Paper 16*

*Wisconsin Legislative Fiscal Bureau  
January, 2003*

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## **Introduction**

Wisconsin's local government system is comprised of cities (190), towns (1,265), villages (395), counties (72), school districts (426), technical college districts (16), and a number of other special purpose districts. This paper provides an overview of the financial characteristics of Wisconsin's general purpose local governments--towns, villages, cities, and counties. It includes descriptions of expenditure and revenue patterns and the role of intergovernmental revenues in local finance. It concludes with a brief discussion of the rationale for state aid programs.

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## **Municipal and County Expenditures and Revenues**

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### **Expenditures**

An examination of expenditures illustrates the variation in local government service levels. Table 1 presents 2001 statewide total and per capita expenditures of towns, villages, cities, and counties for ten categories of general operations. This information is compiled from annual financial

reports filed with the Department of Revenue. Included in the reports and Table 1 are amounts expended by local enterprises, such as water, electric, or parking utilities. Appendix I supplies a more detailed listing of the items included in each function.

Several points relevant to the data should be noted. First, some functions are not uniformly provided by all local governments. Second, governments do not use uniform methods for allocating costs to the various expenditure categories. Third, service levels may vary due to factors other than population. For example, high per capita expenditures for public safety in a municipality may be due to a concentration of commercial and manufacturing property, as opposed to a high service level for the residents of the municipality. Despite these cautions, the expenditure data can be used to draw some general conclusions about local government services.

Cities had the highest per capita level of expenditures (\$1,749), followed by villages, counties, and towns. Average per capita expenditures for villages (\$1,383) were 79.1% of the level for cities. County expenditures per person (\$1,048) were lower than both villages and cities. Finally, town expenditures per person (\$429) were only 24.5% of the city average.

**Table 1: 2001 Expenditures of Municipalities and Counties**

	Towns			Villages		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
General Administration	\$103,565,745	\$61	14.3%	\$73,928,384	\$107	7.7%
Public Safety	123,474,742	73	17.1	185,492,295	267	19.3
Health and Human Services	2,878,851	2	0.4	3,582,912	5	0.4
Transportation	310,436,215	184	42.9	166,746,868	241	17.4
Sanitation	56,863,032	34	7.9	146,300,969	211	15.2
Recreation and Education	17,846,197	11	2.5	68,178,605	98	7.1
Conservation and Development	15,043,284	9	2.1	39,456,828	57	4.1
Principal and Interest	71,719,154	43	9.9	170,761,075	246	17.8
Electric, Gas, and Water Utilities	7,710,735	4	1.1	97,376,557	140	10.2
Other	<u>13,120,384</u>	<u>8</u>	<u>1.8</u>	<u>7,334,067</u>	<u>11</u>	<u>0.8</u>
Total	\$722,658,339	\$429	100.0%	\$959,158,560	\$1,383	100.0%
	Cities			Counties		
General Administration	\$357,210,125	\$118	6.8%	\$547,178,991	\$101	9.7%
Public Safety	1,134,798,782	375	21.5	741,050,375	137	13.1
Health and Human Services	86,464,932	29	1.6	2,280,287,317	422	40.3
Transportation	802,870,942	266	15.2	845,301,009	157	14.9
Sanitation	515,195,618	170	9.7	62,862,183	12	1.1
Recreation and Education	467,550,929	155	8.8	298,598,160	55	5.3
Conservation and Development	345,518,341	114	6.5	123,830,726	23	2.2
Principal and Interest	827,643,398	274	15.7	370,717,877	69	6.6
Electric, Gas, and Water Utilities	596,708,944	197	11.3	25,111,076	5	0.4
Other	<u>155,683,321</u>	<u>51</u>	<u>2.9</u>	<u>363,798,429</u>	<u>67</u>	<u>6.4</u>
Total	\$5,289,645,332	\$1,749	100.0%	\$5,658,736,143	\$1,048	100.0%

**Table 2: 2001 Revenue Sources of Municipalities and Counties**

	Towns			Villages		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
Taxes*	\$286,080,226	\$170	38.1%	\$306,506,266	\$442	30.3%
Intergovernmental Revenues	231,508,953	137	30.9	148,903,226	215	14.7
Licenses and Permits	16,441,955	10	2.2	18,204,121	26	1.8
Fines and Forfeitures	3,124,857	2	0.4	8,918,398	13	0.9
Public Charges for Services	50,455,963	30	6.7	128,358,898	185	12.7
Intergovernmental Charges	7,997,903	5	1.1	36,640,645	53	3.6
Long-Term Debt	96,750,743	57	12.9	178,177,330	257	17.6
Interest Income	23,761,262	14	3.2	37,036,822	53	3.7
Utility Revenues	7,596,744	5	1.0	93,529,590	135	9.3
Other	<u>26,465,921</u>	<u>16</u>	<u>3.5</u>	<u>54,499,580</u>	<u>79</u>	<u>5.4</u>
Total	\$750,184,527	\$446	100.0%	\$1,010,774,876	\$1,458	100.0%
	Cities			Counties		
Taxes*	\$1,389,101,940	\$459	26.0%	\$1,581,488,621	\$293	28.6%
Intergovernmental Revenues	1,190,981,725	394	22.2	1,800,010,043	333	32.6
Licenses and Permits	65,280,295	22	1.2	15,350,001	3	0.3
Fines and Forfeitures	40,836,685	14	0.8	29,280,251	6	0.5
Public Charges for Services	745,427,527	246	13.9	973,477,884	180	17.6
Intergovernmental Charges	264,689,401	88	4.9	631,541,590	117	11.4
Long-Term Debt	611,839,118	202	11.4	275,729,410	51	5.0
Interest Income	170,638,736	56	3.2	115,114,198	21	2.1
Utility Revenues	629,417,141	208	11.8	4,513,778	1	0.1
Other	<u>247,320,493</u>	<u>82</u>	<u>4.6</u>	<u>96,795,779</u>	<u>18</u>	<u>1.8</u>
Total	\$5,355,533,061	\$1,771	100.0%	\$5,523,301,555	\$1,023	100.0%

\*Includes property taxes, county sales taxes, special assessments, and other local taxes.

Almost half of all expenditures were devoted to transportation in towns (42.9%) and to health and human services in counties (40.3%). Cities and villages did not have a single dominant category of expenditures, although more than half of all expenditures in villages (54.5%) and cities (52.4%) were attributable to public safety, transportation, and debt service, combined.

## Revenues

Revenue patterns for towns, villages, cities, and counties for 2001 are displayed in Table 2. The table includes ten revenue sources that are described in Appendix II. In addition to total revenue collected, Table 2 reports per capita amounts and the percent that each revenue category is of total revenues.

Total revenues were comparable to the corresponding expenditure totals for each type of local government. Thus, the highest per capita revenues were recorded in cities (\$1,771) and villages (\$1,458), followed by counties (\$1,023) and towns (\$446).

Taxes, intergovernmental revenues, and public charges for services comprised the largest revenue sources for local governments in 2001. Taxes represented the largest revenue source for towns (38.1%), villages (30.3%), and cities (26.0%). Intergovernmental revenues were the largest revenue source for counties (32.6%). Most county charges for services are derived from functions such as mental health services, nursing homes, hospitals, and other health and human services, where third party reimbursements account for much of the revenues.

## Intergovernmental Revenues

Detail on 2001 intergovernmental revenues (IGR) is provided in Table 3. Aids are arranged under three broad categories: (1) direct federal aid;

(2) state aid, including federal aid paid through the state; and (3) aid from other local governments. Counties receive most of the federal aid paid through the state. Separate figures are shown only for the larger aid programs. Most lines include several separate aid programs that fund similar types of local service. State aid does not reflect state property tax credits, which, although paid to municipalities, must be passed through to taxpayers as a credit against gross property taxes.

Direct federal aid plays a relatively small role in intergovernmental revenues. Cities received \$59 per person in direct federal aid, which equaled 14.8% of their IGR. Counties received \$31 per person, or 9.4% of their IGR. Direct federal aid averaged \$2 per capita for towns and \$8 per capita for villages, or 1.4% and 3.8% of their total IGR, respectively.

Shared revenue and state transportation aid were the largest sources of aid to municipalities in 2001. For towns, those aids comprised 84.2% of their total IGR. Shared revenue comprised about half of all intergovernmental revenues for villages (49.5%) and cities (51.5%). On a per capita basis, cities received more shared revenue (\$203) than villages (\$106) or towns (\$43). On the other hand, per capita transportation aid payments were higher for towns (\$72) than for cities (\$53) or villages (\$50).

Counties received the majority (62.4%, or \$208 per person) of their aid in the health and human services area. State shared revenue and transportation aid to counties each totaled \$31 per person (9.4% of all aid to counties).

Aid from other local governments was not a significant part of total intergovernmental revenues. For each type of municipality, these aids comprised about 4% of intergovernmental revenue (3.6% for cities and 3.8% for towns and villages). This aid was less significant for counties (0.3%).

**Table 3: 2001 Intergovernmental Revenues to Municipalities and Counties**

	Towns			Villages			Cities			Counties		
	Amount	Per Capita	% of Total	Amount	Per Capita	% of Total	Amount	Per Capita	% of Total	Amount	Per Capita	% of Total
<b>Direct Federal Aid</b>												
Public Safety	\$672,174	< \$1	0.3%	\$1,863,036	\$3	1.2%	\$9,927,047	\$3	0.8%	\$4,713,029	\$1	0.3%
Health and Human Services	0	0	0.0	0	0	0.0	6,188,786	2	0.5	68,979,281	13	3.8
Transportation	541,811	< 1	0.2	950,507	1	0.6	7,254,552	2	0.6	44,238,355	8	2.5
Sanitation	3,731	< 1	< 0.1	689,780	1	0.5	712,681	< 1	0.1	0	0	0.0
Culture and Recreation	0	0	0.0	0	0	0.0	1,436,649	1	0.1	1,660,715	< 1	0.1
Community Development	347,223	< 1	0.1	832,172	1	0.6	119,419,477	40	10.0	25,714,834	5	1.4
Other	<u>1,615,829</u>	<u>1</u>	<u>0.7</u>	<u>1,277,786</u>	<u>2</u>	<u>0.9</u>	<u>31,966,358</u>	<u>11</u>	<u>2.7</u>	<u>22,961,783</u>	<u>4</u>	<u>1.3</u>
Total Federal Aid	\$3,180,768	\$2	1.4%	\$5,613,281	\$8	3.8%	\$176,905,550	\$59	14.8%	\$168,267,997	\$31	9.4%
<b>State Aid (Includes Federal Aid Paid Through the State)</b>												
Shared Revenue	\$73,169,715	\$43	31.6%	\$73,726,250	\$106	49.5%	\$613,817,971	\$203	51.5%	\$169,644,292	\$31	9.4%
Expenditure Restraint	844,430	1	0.3	5,019,086	7	3.4	51,136,484	17	4.3	0	0	0.0
<b>Small Municipalities</b>												
Shared Revenue	6,825,556	4	2.9	3,915,849	6	2.6	258,595	< 1	< 0.1	0	0	0.0
General Government	0	0	0.0	60,223	< 1	< 0.1	320,230	< 1	< 0.1	41,044,759	8	2.3
Public Safety	3,893,765	2	1.7	6,597,508	10	4.4	15,894,031	5	1.3	23,227,841	4	1.3
Health and Human Services	1,740	< 1	< 0.1	47,707	< 1	< 0.1	12,217,792	4	1.0	1,123,902,206	208	62.4
Transportation	121,729,704	72	52.6	34,320,355	50	23.1	161,306,121	53	13.5	168,907,017	31	9.4
Sanitation	4,056,677	2	1.8	2,899,133	4	1.9	13,462,457	4	1.1	7,215,945	1	0.4
Culture and Recreation	0	0	0.0	0	0	0.0	3,160,424	1	0.3	28,390,635	5	1.6
Community Development	55,300	< 1	< 0.1	3,485,770	5	2.3	9,788,550	3	0.8	10,384,085	2	0.5
Forestry and Conservation	5,759,604	3	2.5	19,947	< 1	< 0.1	42,333	< 1	< 0.1	27,096,720	5	1.5
Payments for Mun. Services	437,562	< 1	0.2	330,756	< 1	0.2	20,954,293	7	1.8	0	0	0.0
Other	<u>2,800,296</u>	<u>2</u>	<u>1.2</u>	<u>7,233,740</u>	<u>10</u>	<u>4.9</u>	<u>68,910,669</u>	<u>23</u>	<u>5.8</u>	<u>26,458,506</u>	<u>5</u>	<u>1.5</u>
Total State Aid	\$219,574,349	\$130	94.8%	\$137,656,324	\$199	92.4%	\$971,269,950	\$321	81.6%	\$1,626,272,006	\$301	90.3%
<b>Total Local Aid</b>	<u>\$8,753,836</u>	<u>\$5</u>	<u>3.8%</u>	<u>\$5,633,621</u>	<u>\$8</u>	<u>3.8%</u>	<u>\$42,806,225</u>	<u>\$14</u>	<u>3.6%</u>	<u>\$5,470,006</u>	<u>\$1</u>	<u>0.3%</u>
<b>TOTAL TRANSFERS</b>	\$231,508,953	\$137	100.0%	\$148,903,226	\$215	100.0%	\$1,190,981,725	\$394	100.0%	\$1,800,010,009	\$333	100.0%

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## Rationale for State Aid to Local Governments

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States provide aid to local units of government for a number of reasons. Although not exhaustive, the following list describes several of these reasons.

1. *Spreading Costs.* Some local services are provided to residents of other communities. State aid may help to ensure that local residents do not bear the entire burden of providing these services. For example, major streets in urban areas serve commuters from other areas. State transportation aid helps to offset the cost borne by urban residents.

2. *Tax Base Equalization.* The two largest state aid programs (general school aid and shared revenue) provide funds to equalize local governments' fiscal capacity by channeling proportionately larger amounts of aid to fiscally weak jurisdictions. Local governments vary in the amount of tax base per resident and the costs of providing local services. Through equalization, tax rates are equalized for governments possessing equal spending levels.

The policy of tax base equalization has been pursued for several reasons. First, it can remove fiscal capacity as a barrier to providing local services. Second, equalization may accomplish a limited degree of income redistribution, providing

more state assistance to areas with low total fiscal capacity. Third, equalization can reduce the variance in local tax rates, making it easier for areas with low fiscal capacity to compete for new development.

3. *Replacing Lost Tax Base.* The exemption of a class of property from local taxation may result in a burdensome shift in taxes to owners of the remaining taxable property. State aid can cushion and spread the burden of the revenue lost due to the exemption.

4. *Substituting State Taxes for Local Taxes.* Using state aid to help finance local government may improve the overall equity in the state-local tax system. The state income tax, in particular, is generally perceived to be more progressive, equitable, and better related to the taxpayer's ability to pay than the property tax.

5. *Funding Local Mandates.* Local governments provide a wide variety of services that are required by state law. The provision of state aid helps to offset the cost of these services.

A concern raised with state aid is the trade-off between stimulating local expenditures and substituting state revenues for local revenues. Either or both responses by local governments are possible. Depending on the state's reasons for providing local aid, provisions can be built into the aid system to address this concern.



## APPENDIX I

### Explanations of Expenditure Categories Used in Table 1

*General Administration.* These are the resources expended for legislative, judicial, and general government support, including governing boards, judges, attorneys, clerks, treasurers, assessors, financial administration, and planning activities.

*Public Safety.* This includes police, fire, emergency communications (911), ambulance, and correctional facilities.

*Health and Human Services.* This includes health programs, drug abuse, mental health, services to the aged, medical and health care services for indigent individuals, veterans programs, income maintenance administration, and other human service programs.

*Transportation.* This includes highway maintenance, traffic control, street lighting, bicycle trails, parking lots, meters and ramps, mass transit, airports, and docks and harbors.

*Sanitation.* This includes sanitary sewers and treatment plants for sewer departments, refuse collection, and landfill operations.

*Recreation and Education.* This includes libraries, recreation programs, parks, recreational facilities, and educational programs.

*Conservation and Development.* This includes expenditures for public housing, economic development, county forestry projects, conservation of natural resources, and administration of planning policies and zoning laws.

*Principal and Interest.* This includes repayment of the principal and interest on bonds, long-term notes, installment contracts, and state trust fund loans and interest on temporary loans. It does not include the payment of principal on temporary loans.

*Operation of Utilities.* This includes operating expenses of water, electric, gas, and other miscellaneous utilities.

*Other.* This includes surplus funds applied to reduce the tax levies of other jurisdictions, expenditures from internal services accounts, and miscellaneous expenditures not classified elsewhere.

*Total General Operations and Enterprises.* This is the sum of the preceding ten categories.

## APPENDIX II

### Explanations of Revenue Categories Used in Table 2

*Taxes.* This includes the municipal and county shares of general property taxes, county sales taxes, special assessments, and other miscellaneous local taxes.

*Intergovernmental Revenues.* This includes direct federal aid, state aid, federal aid paid through the state, and aid from other local governments.

*Licenses and Permits.* This includes liquor licenses, building and zoning permits, and other regulatory permits and fees.

*Fines and Forfeitures.* This includes police fines, contract forfeitures, judgments, and damage awards.

*Public Charges for Services.* This includes parking fees, golf course fees, mental health service fees, and other user charges.

*Intergovernmental Charges for Services.* This includes revenues received from other governmental units for services provided.

*Long-Term Debt.* This includes proceeds from long-term general obligation bonds, notes, state trust fund loans, and installment purchase contracts.

*Interest Income.* This includes interest earned on invested funds and interest and penalty charges on special assessments.

*Utility Revenues.* This includes user fees and other revenues from water, gas, electric, and other miscellaneous utilities.

*Other.* This includes miscellaneous revenues.

*Total General Operations and Enterprises.* This is the sum of the preceding ten categories.